

Funding the Future

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Both the [FT](#) and the [Guardian](#) note criticisms of HM Revenue & Customs raised by [the National Audit Office this morning](#).

As the NAO says:

The cost to HMRC of running the tax system is increasing. In part this is due to rising complexity in the different tax regimes and taxpayer numbers, but it is also due to the additional cost of introducing and remediating digital systems, and moving to a more highly-skilled workforce.

The NAO is critical of HMRC, saying:

HMRC does not measure the overall efficiency of its administration of the tax system, but there is evidence from different parts of the system that there is scope for increased efficiency and productivity: enhanced digitalisation has increased revenue but it does not seem to be reducing running costs; customer service performance has declined; and efficiency targets have proved difficult to achieve without compromising services.

It adds:

Compliance staff productivity remains below pre-pandemic levels. Unless HMRC improves there is a risk that lower levels of yield per caseworker could become the norm.

It also notes that the tax system - which is much bigger than the work undertaken by HM Revenue & Customs, as it does, of course, include all the compliance work undertaken by taxpayers themselves - does not appear to be working well:

There is evidence that the tax system is imposing increased administrative burdens on taxpayers and their intermediaries, despite the availability of digital channels.

The system has become more complex over time, rather than more straightforward and easier to deal with. There are too few examples where system changes have considered the cost to taxpayers, or prioritised sufficiently those that will reduce cost.

Their conclusion is:

There is little doubt that the high returns HMRC generates from its compliance work offer good value for money for the government, but the system is not optimised.

It has rightly identified that simplification, automation, upfront compliance activity and better working with tax intermediaries will help to reduce its costs.

HMRC's move towards end-to-end oversight of each tax regime will be important to better enable it to understand the cost-efficiency of administering each tax, including how easy it is for taxpayers to follow the rules, and whether the system is causing unnecessary contact or making it harder and more costly for taxpayers to comply.

These words are useful but not very hard-hitting. Nor does it get to the real core of the issue that needs to be addressed, in my opinion.

That core issue is that if a tax system is to work, it must be transparent. I have been working on this issue for some years now, including by co-authoring with my Sheffield colleague, Andrew Baker, a work called '[Making Tax Work](#)' for the Global Initiative for Fiscal Transparency. In that, we take a very different approach to the National Audit Office, who see tax as a cost and a burden, as have the governments that they have served for too long. Instead, we say:

Tax transparency as a public good. Making Tax Work (MTW) understands this as a service that is provided without profit to benefit all members of a society.

Similarly, the tax system itself should be regarded as a public good. While few stakeholders pay tax with enthusiasm, many appreciate just how important it is that tax is paid, for all the many reasons noted in the document that follows. If the value of this overall public good is enhanced by greater transparency, with the benefit to society increasing as a result, then this would constitute a societal wide net welfare gain. That is why tax transparency, and the delivery of an appropriate tax transparency framework matters. Making Tax Work sets out in the document that follows pathways and routes for achieving that goal.

The whole approach that we adopt is one of making the system as a whole work for the benefit of everyone. That is not what the government and HMRC have done. Their approach is summarised, albeit inadvertently, by the National Audit Office [in this chart in their report](#):

£4.3bn

the amount spent by HM Revenue & Customs (HMRC) to collect £829 billion of tax in 2023-24

0.51p

just over half a penny spent by HMRC on collecting tax for every pound of tax revenue collected in 2023-24, as reported in HMRC's annual report

£15.4bn

HMRC estimate of the annual cost to businesses of complying with the tax system, although it recognises this is out of date and incomplete

The emphasis on cost reduction within HMRC - which was driven by all Chancellors from Gordon Brown onwards but which became an obsession under George Osborne, has been deeply counter-productive. The aim of outsourcing costs, whilst demanding every increasing and utterly useless information from taxpayers - typified by the absurd Making Tax Digital programme, which continues to roll out even though it is very obviously not working for smaller businesses - is massively increasing compliance costs for taxpayers. Many of them are having to engage tax advisers when once they did not need to do so. The risk of error on their part, simply because of the frequency and absurd timeliness of reporting demanded, plus the draconian penalty regimes that penalise innocent error and not any wrongdoing - are also massively increasing the burdens on HM Revenue & Customs, who have data that is largely meaningless to use as a result of this over-submission of data.

I make a lot of recommendations in the [Taxing Wealth Report 2024](#) on the reform of HM Revenue & Customs. Most are simple and heavily focused on what is really required to make HMRC work.

I would start with getting [better data on tax gaps](#). After all, knowing the real state of the problem. is key.

Then, [tax spillover assessments](#) are required to highlight where action is really needed - and the NAO has not identified that, I suggest.

After that, the focus has to be on criminality - and simple systems to address failings in the collection of [data on companies](#) could address that.

Thereafter, working with taxpayers [by being in the community](#) is key, as is adequate staffing.

What is not required is Making Tax Digital and alienating penalty regimes and threats.